

Shades of Gray



Daniel J.B. Mitchell

Washington, DC

Sept. 25, 2009



ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



Shades of Gray



Then



Now

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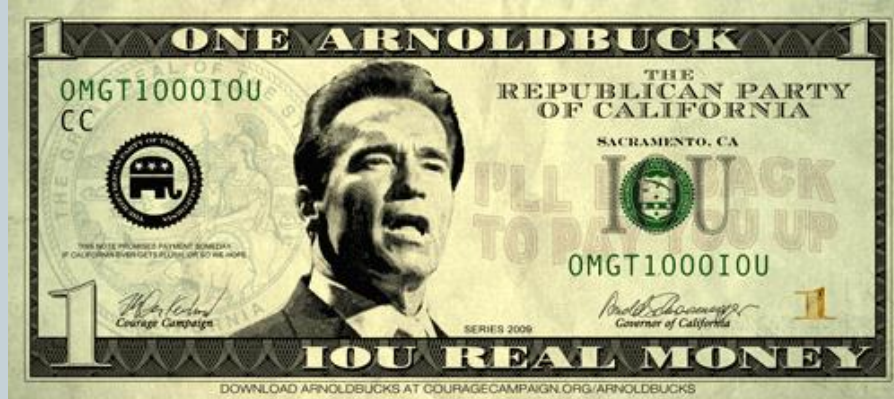


Shades of Gray

FRIDAY, JULY 3, 2009

Los Angeles Times

Los Angeles, Calif. Friday, July 3, 2009



Deadlocked state sends out IOUs

When it takes a week to pass a budget, the state sends out IOUs. The state's budget is deadlocked, and the state is sending out IOUs to its creditors. The state's budget is deadlocked, and the state is sending out IOUs to its creditors. The state's budget is deadlocked, and the state is sending out IOUs to its creditors.

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STATE OF CALIFORNIA

THE TREASURER OF THE STATE WILL PAY OUT OF THE
IDENTIFICATION NO.
1477586808

4260

is REGISTERED WARRANT will be honored
ess it's approved for earlier redemption pursuant to Gov.Code Sec

000610

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is **REGISTERED WARRANT** will be honored
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Shades of Gray

Making California's State Budget More User-Friendly and Transparent

Daniel J.B. Mitchell



Werner Z. Hirsch



ABFM Conference, Oct. 11, 2002, Kansas City

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***Is the current budget crisis
an unpleasant surprise?***



Two scenarios



**Did the budget problem
just creep up when no one
was looking?**



Bird Scenario



**Or did we really know
what was happening?**



***Casablanca
Scenario***



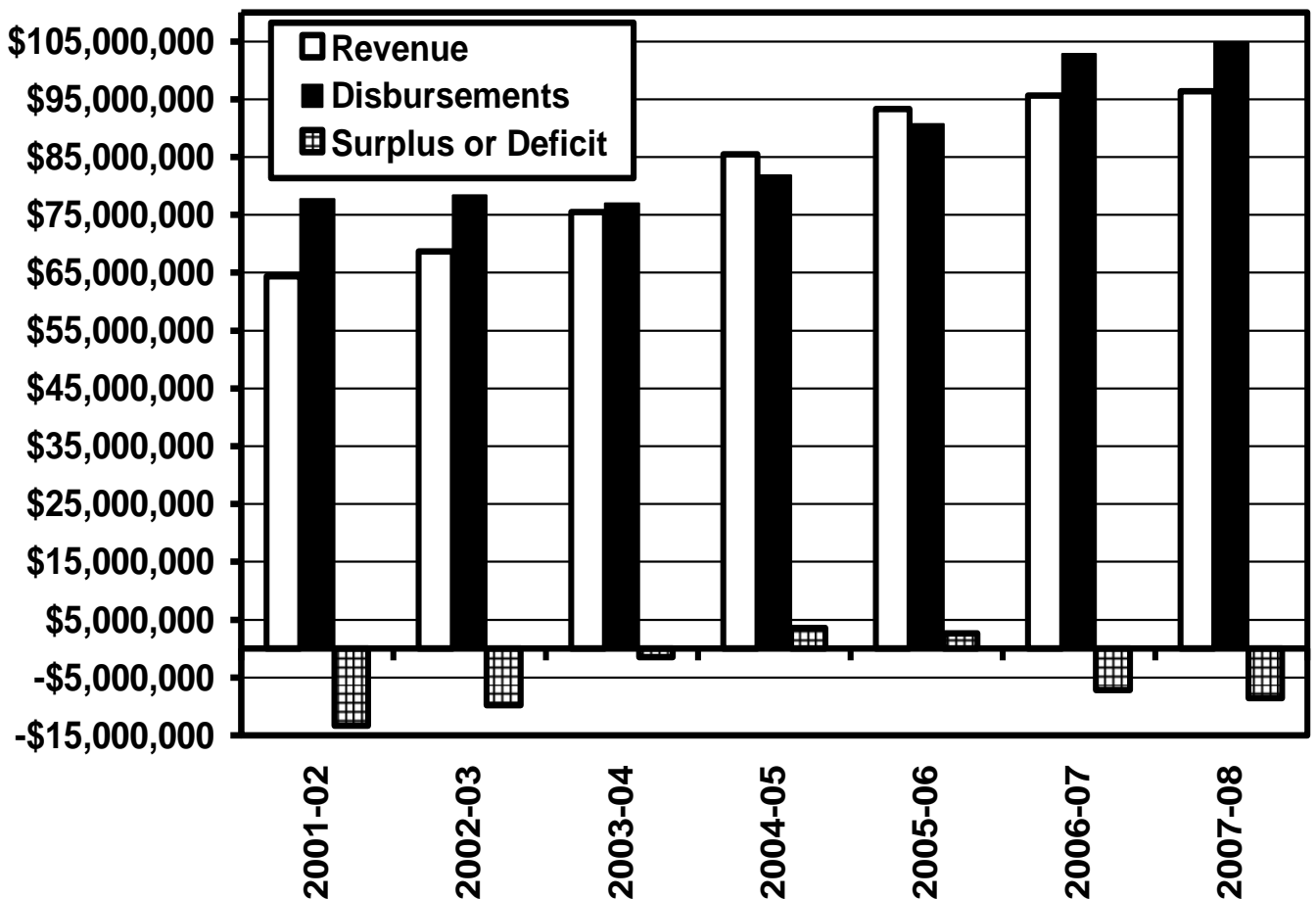
Or did we really know what was happening?



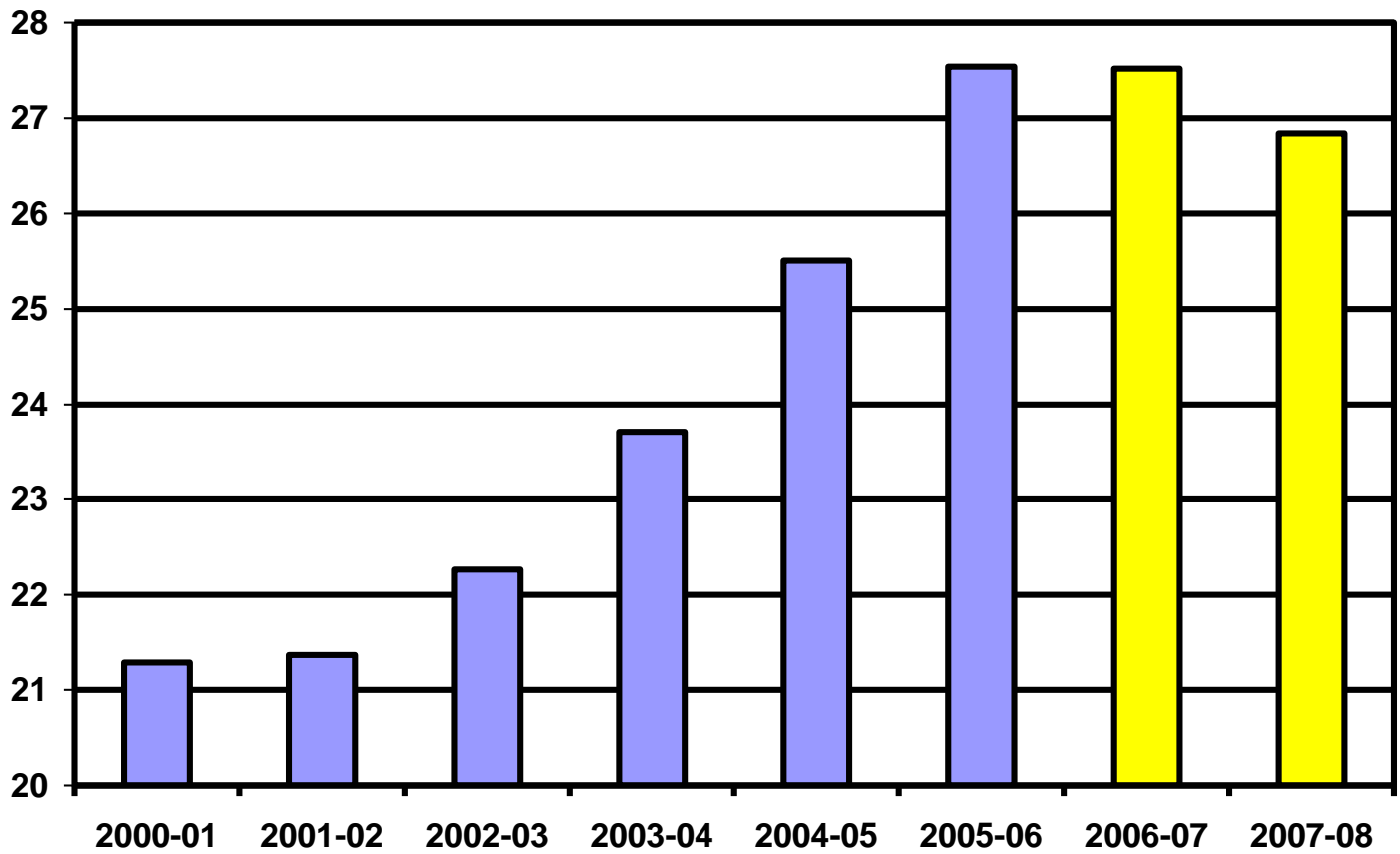
Looking Backwards Before the 2008-09 Crisis



Adjusted Cash Statement (\$000)



California Sales Tax: \$Billions



Brant Ward / The Chronicle



March 26, 2007



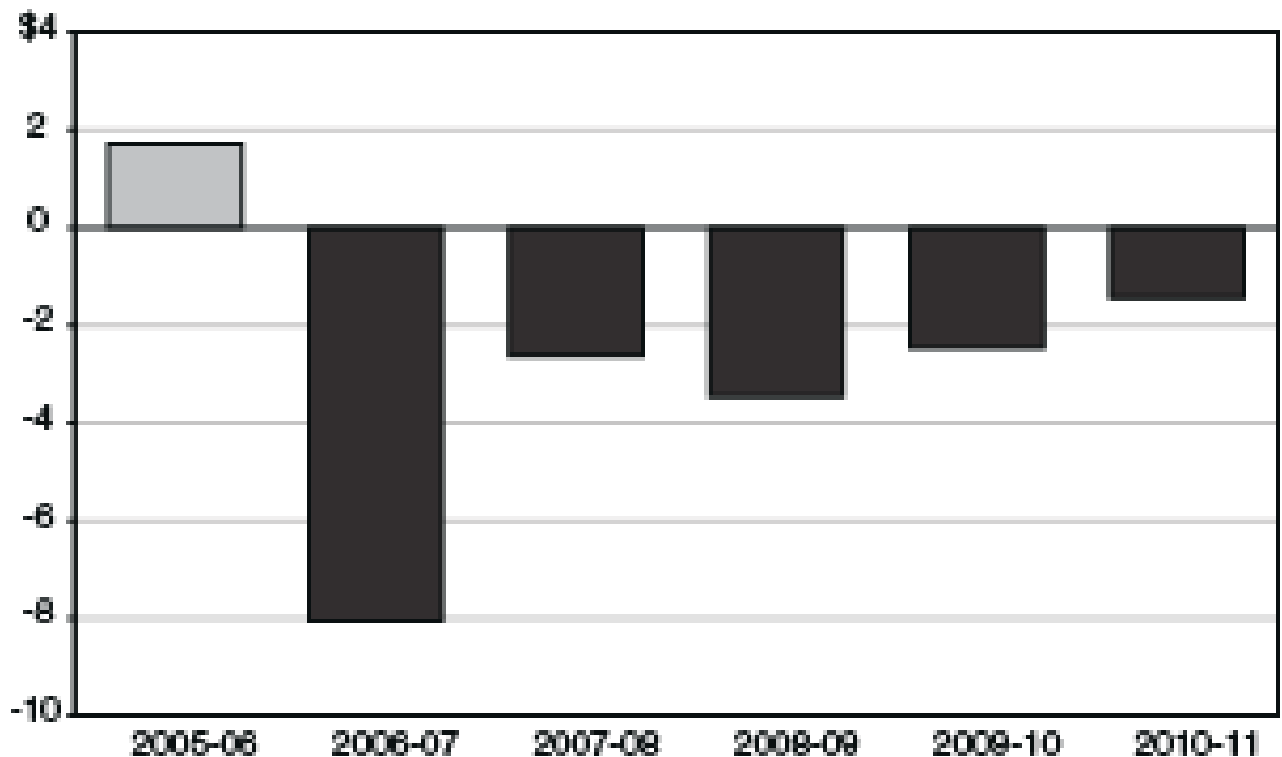
LAO Projections as of mid-Feb. 2007



Deficits

Significant Operating Shortfalls^a Would Remain

General Fund (In Billions)



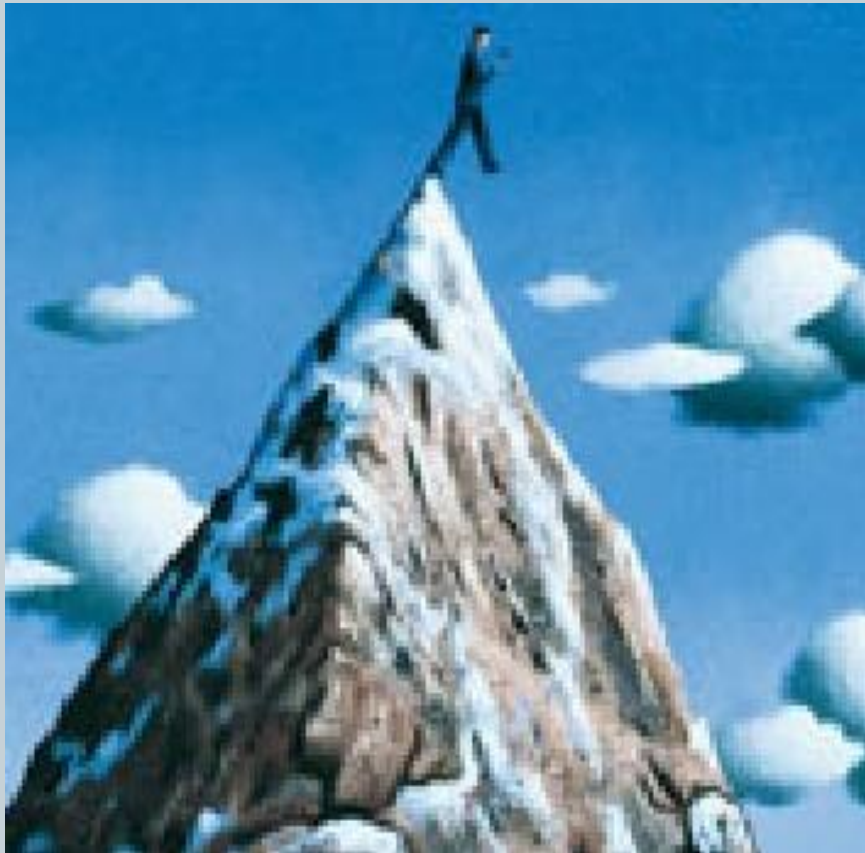
^aAnnual revenues minus expenditures. Legislative Analyst's Office estimate of Governor's revenue and expenditure policies.



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When you are at the peak, you can't fall up



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supposed to be
Repetition is a teacher





supposed to be

Repetition is a teacher



So why does
this happen?



The Usual Suspects



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The Usual Suspects



2/3 vote for budget

2/3 vote for taxes

Proposition 13

**Voter-mandated spending formulas,
programs, bond issues**

Voter-imposed term limits

Volatile revenue stream

Gerrymandered districts

Party polarization

Direct Democracy

Direct Democracy

More Suspects



Surpluses and deficits don't have fixed common-English meanings

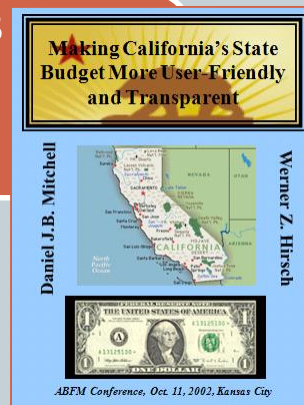
Stocks and flows are mixed

Budget concepts expressed without clear time period

Borrowing treated as revenue

Assets sales treated as negative spending

Use of undefined terms by officials such as shortfalls, gaps, and holes





Short Fall?

Long Fall?



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Short Fall?

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Paul Sakuma, Associated Press

California budget faces new \$8-billion shortfall

Plunging revenue has already put the new budget plan out of balance, the state legislative analyst says. The news may complicate the bid to have voters OK special-election measures in May.

By Jordan Rau and Evan Halper
March 14, 2009

Reporting from Sacramento -- The plan that Gov. Arnold Schwarzenegger and

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CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

Leaders react to latest budget gap

The legislative leaders who labored for weeks trying to find a way to patch the \$40 billion budget gap closed last month were quick to react today to LAO projections of a new \$8 billion hole.

Senate leader Darrell Steinberg even extended a special invitation to GOP gubernatorial hopefuls Steve Poizner and [Meg Whitman](#), who have been critical of the February budget deal.

Assembly Speaker Karen Bass, D-Los Angeles

"Given the nation's continuing economic problems since we passed the budget, it is not surprising to see the state's revenue projections continue to fall. We must keep a careful watch on revenues during these volatile times, and all of us, Democrats and Republicans alike, must be prepared to continue to make tough decisions should the May Budget Revision also show significant declines in revenue. We also have to keep in our minds the potential that if the [ballot measures](#) fail on May 19th, the budget problem grows by another \$6 billion."

Assembly Republican Leader Mike Villines, R-Clovis



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Holes





Holes

The Sacramento Bee CapitolAlert



PM Alert: Another \$8 billion hole

In case you missed it today: The Legislature's budget analyst, **Mac Taylor**, declared today that the **immense package of spending cuts, new taxes and loans** aimed at closing the state's \$40 billion budget deficit will **fall short by \$8 billion** because the state's economy is continuing to falter.

The **legislative leaders who labored for weeks** trying to find a way to patch the \$40 billion budget gap were quick to react today to LAO projections of a new \$8 billion hole.

When it comes to **protecting children's interests, nobody scores 100 percent** in the California Legislature, according to the San Diego-based Children's Advocacy Institute.



AP Photo/Mark Hanna

More Suspects



State Senate President Darrell Steinberg



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More Suspects



State Senate President Darrell Steinberg



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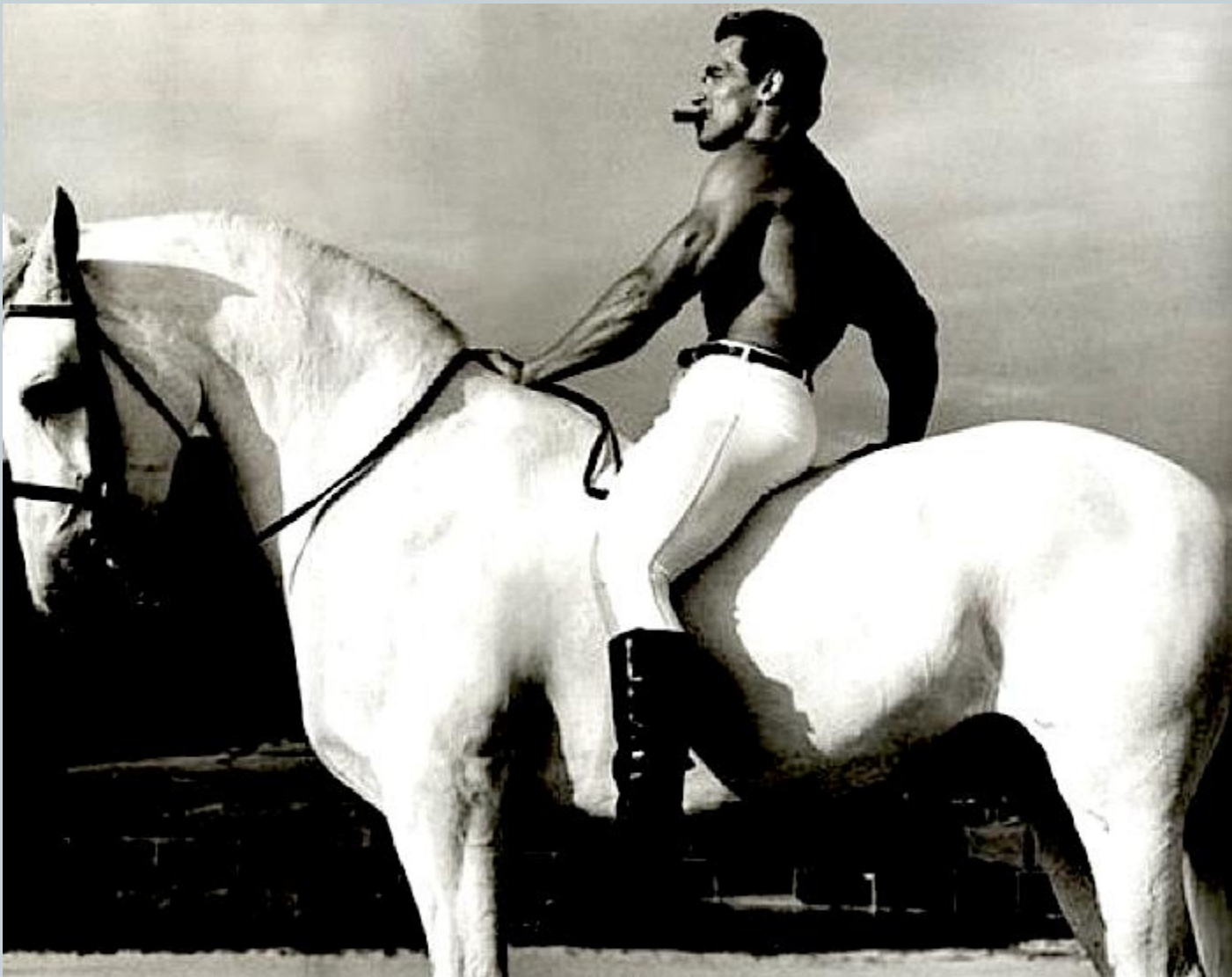


More Suspects



**\$100 billion
is an annual
flow. Is it really
likely that there
could have
been a \$60
billion deficit in
the common
meaning of
that term?**





The Man on the White Horse Syndrome?



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The Man on the White Horse Syndrome?



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FORTUNE

ON DISPLAY UNTIL APRIL 6, 2009

CAN MEG WHITMAN SAVE CALIFORNIA?

THE FORMER CEO OF EBAY GEARS UP TO RUN FOR GOVERNOR
BY PATRICIA SELLERS
PAGE 64

INSIDE THE WORLD'S BIGGEST HEDGE FUND

BY BRIAN O'KEEFE
PAGE 77

MEL KARMAZIN FIGHTS TO RESCUE SIRIUS

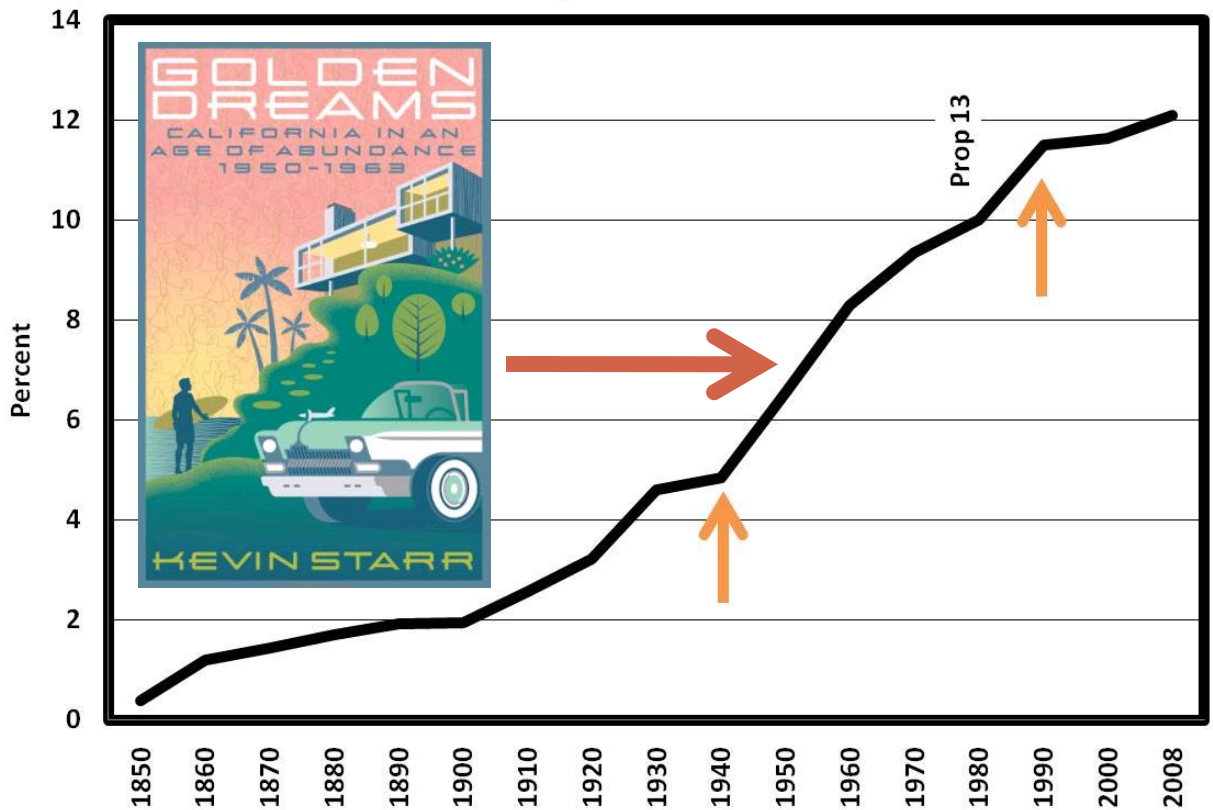
BY JON BIRGER
PAGE 84

Meg Whitman
and Brandy,
Half Moon Bay, Calif.
March 7, 2009

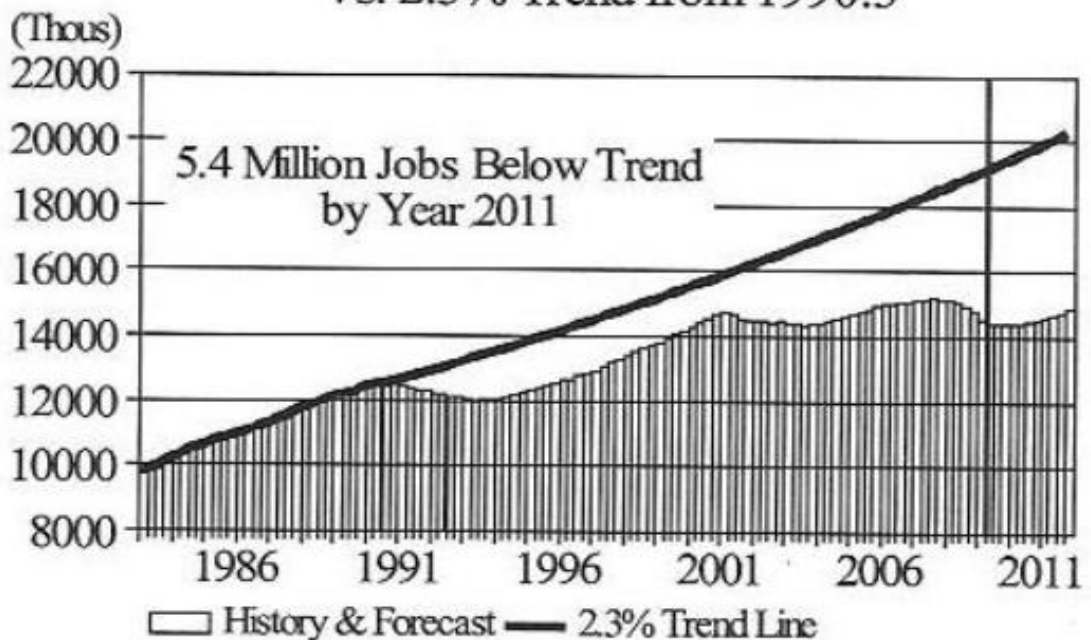
FORTUNE.COM

Woman on a Non-White Horse?

California Population Relative to US



California Nonfarm Employment History & Forecast Vs. 2.3% Trend from 1990:3





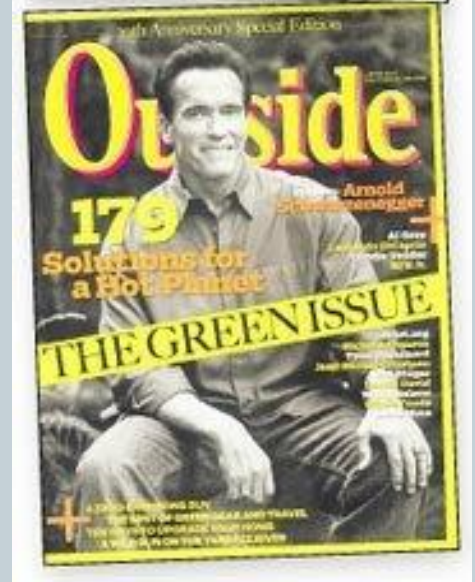
Micromanagement didn't help

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Macro- Management didn't help

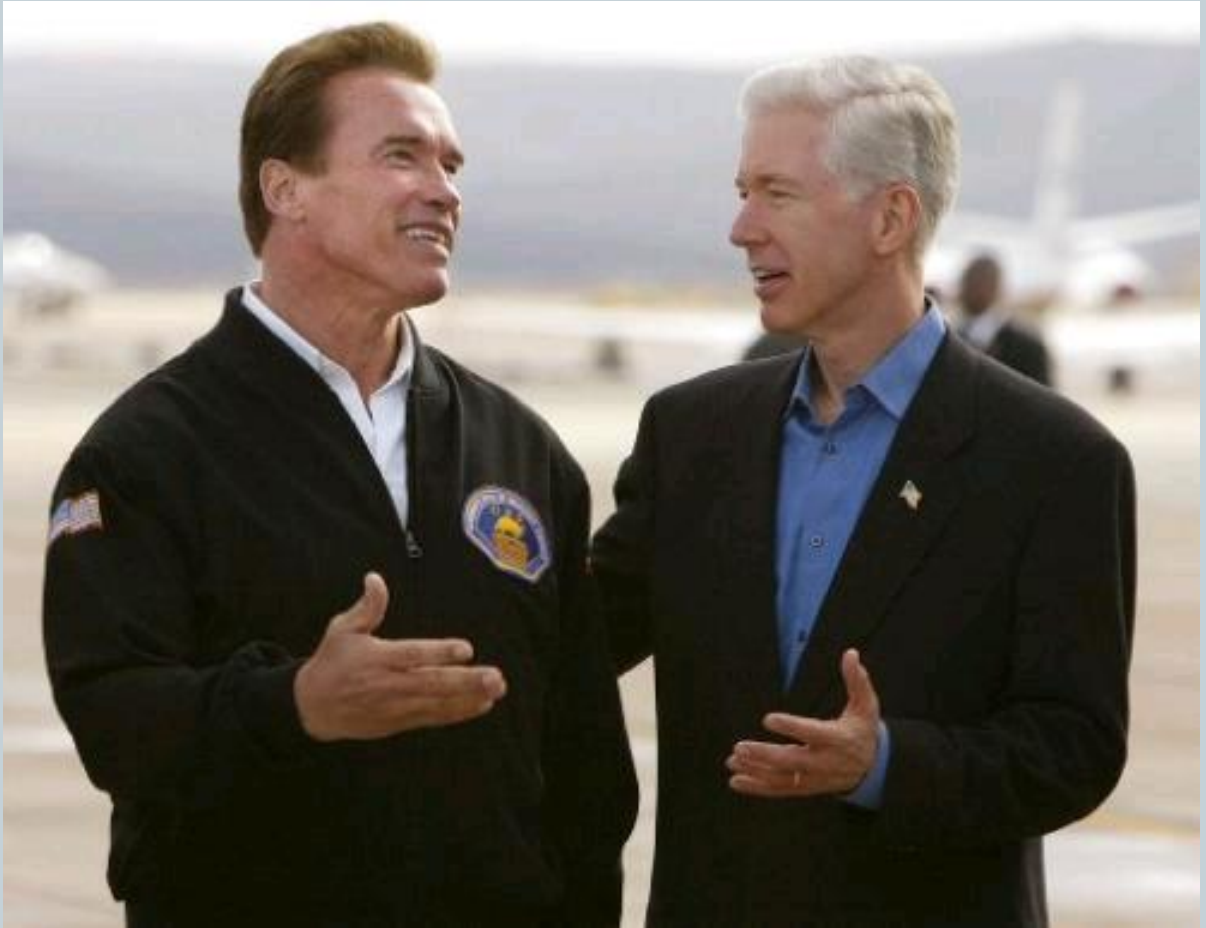


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